

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-83888; File No. SR-NASDAQ-2018-069)

August 20, 2018

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Codify the Definitions of the Protocols to Enter Quotes and Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 17, 2018, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to adopt new rule text within The Nasdaq Options Market LLC Rules at Chapter VI, Section 21. Specifically, the Exchange proposes to codify the definitions of the current protocols that Participants can use to enter quotes and orders on the Exchange and introduce a new protocol.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaq.cchwallstreet.com>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to adopt new rule text at Chapter VI, Section 21 to codify the Financial Information eXchange (“FIX”) and Specialized Quote Feed (“SQF”) protocols. The Exchange proposes to adopt a new protocol and name it “Ouch to Trade Options” (“OTTO”) and rename and amend the current OTTO protocol on NOM as “Quote Using Orders” or “QUO”.<sup>3</sup> The Exchange believes that codifying definitions of current and new protocols in its rules will increase transparency around its operations. Furthermore, the proposed definitions will be harmonized where appropriate with definitions contained in the rules of the Exchange’s affiliated options markets,<sup>4</sup> by using consistent terms to define the buckets of information transmitted, or the features available, on each protocol. The protocols used by NOM Participants to submit quotes and orders play an important role in the operation of the System.

The Exchange notes it has two protocols today, SQF and proposed to be renamed QUO (formerly known as OTTO), that NOM Market Makers can use to meet their quoting obligations.

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<sup>3</sup> Today the Exchange offers FIX, SQF and QUO (formerly known as OTTO) to its Participants.

<sup>4</sup> Rules have been filed for Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”), Nasdaq MRX, LLC (“MRX”), Nasdaq BX, Inc. and Nasdaq Phlx, LLC.

All quotes on SQF are counted toward market making obligations. While a NOM Market Maker may enter an Immediate-or-Cancel Order through SQF this order does not rest on the Exchange's order book and therefore does not count toward quoting obligations. In contrast orders that NOM Market Makers send through QUO will count toward market maker quoting obligations because orders submitted through QUO will rest on the order book and allow NOM Market Makers to provide liquidity on NOM. NOM Market Makers cannot use QUO to submit quotes. As noted below in the section on QUO, specifically orders would count toward meeting quoting obligations for purposes of Rule 701, Opening, and Rule 804(e), regarding intra-day quoting.

The Exchange proposes to title proposed new Section 21 as "Order and Quote Protocols" and codify descriptions of the various current and new protocols that Participants may use to enter quotes and orders on NOM. Proposed new section (a) to Chapter VI, Section 21 would be entitled "Entry and Display of Orders and Quotes." Proposed new Chapter VI, Section 21(a) would provide, "Participants may enter orders and quotes into the System as specified below." The Exchange proposes to add a section Chapter VI, Section 21(a)(i) which states, "The Exchange offers Participants the following protocols for entering orders and quotes respectively." Each protocol will be explained in greater detail below.

A. Financial Information eXchange Ports

This protocol is not memorialized within the Exchange's Rulebook, however rule changes describing FIX were filed previously.<sup>5</sup> The Exchange proposes to codify a description

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<sup>5</sup> See Securities Exchange Act Release No. 74616 (April 6, 2015), 80 FR 18450 (March 31, 2015) (SR-NASDAQ-2015-027). The FIX port was previously referred to as the "Order Entry Port" and described as a connection to routing orders to the Exchange via an external order entry port. NOM Participants access the Exchange's network through order entry ports. A NOM Participant may have more than one order entry port. The Exchange recently renamed the "Order Entry Port" as the "FIX Port" in the Exchange's

of FIX at Rule 1080(a)(i)(a) to add even greater specificity to this protocol. The Exchange proposes to state that FIX is an interface that allows Participants (Market Makers and non-Market Maker Participants) and their Sponsored Customers to connect, send and receive messages related to orders to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications.

#### B. Specialized Quote Feed Ports

This protocol is not memorialized within the Exchange's Rulebook, however rule changes describing SQF were filed previously.<sup>6</sup> The Exchange proposes to more specifically define an SQF Port. The Exchange proposes the following definition:

SQF is an interface that allows Market Makers to connect, send, and receive messages related to quotes and Immediate-or-Cancel Orders into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g. underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; and (8) opening imbalance messages. The SQF Purge Interface only receives and notifies of purge request from the Market Maker.<sup>7</sup>

The Exchange believes that this information provides a more thorough description of SQF.

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Pricing Schedule. See Securities Exchange Act Release No. 83192 [sic] (May 9, 2018), 83 FR 22570 [sic] (May 15, 2018) (SR-NASDAQ-2018-036).

<sup>6</sup> See Securities Exchange Act Release No. 83193 (May 9, 2018), 83 FR 22539 (May 15, 2018) (SR-NASDAQ-2018-036). This rule change generally described SQF as an interface that allows market makers to send quotes, sweeps and auction responses into the Exchange.

<sup>7</sup> All of the notification messages available on SQF ports as described above (i.e., options symbol directory messages, system event messages, trading action messages, etc.) are configurable in that NOM Market Makers can select the specific types of notifications they wish to receive on their SQF ports. As such, SQF Purge Interface ports are a subpart of SQF ports that have been configured to only receive and notify of purge requests.

### C. Quote Using Orders (formerly OTTO)

Today, the Exchange offers a protocol named “Ouch to Trade Options” or “OTTO.” The Exchange has filed a description of the current OTTO in prior rule changes stating OTTO is a protocol which permits the transmission of orders to the Exchange by a Participant.<sup>8</sup> Further, the prior filing noted Immediate-or- Cancel orders will not be cancelled pursuant to this Chapter VI, Section 6 because, by definition, these orders will cancel if not executed.<sup>9</sup> All Participants have the ability to utilize OTTO. Today, orders submitted by NOM Market Makers over this interface are treated as quotes.<sup>10</sup>

The Exchange proposes to rename the current OTTO as “Quote Using Orders” or “QUO” and amend the protocol by restricting it to NOM Market Makers only because this protocol is predominately utilized by NOM Market Makers. Further, the Exchange is offering non-Market Makers the new OTTO protocol, described below, which some Participants, who are also members of ISE, GEMX and MRX,<sup>11</sup> utilize today. The Exchange also notes QUO users will be subject to certain quote protections specified in Chapter VI, Section 18(c) which are specific to NOM Market Makers and would otherwise not apply to non-Market Makers. This interface would continue to allow NOM Market Makers to connect, send, and receive messages related to single-sided orders to and from the Exchange. The Exchange proposes to add additional granularity to this protocol by stating that the order features include the following: (1) options symbol

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<sup>8</sup> See Securities Exchange Act Release No. 78480 (August 4, 2016), 81 FR 52926 (August 10, 2016) (SR-NASDAQ-2016-097).

<sup>9</sup> Id.

<sup>10</sup> Id.

<sup>11</sup> The new OTTO protocol is the same protocol offered on ISE, GEMX and MRX.

directory messages (e.g., underlying); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; and (6) risk protection triggers and cancel notifications. Similar to how the protocol operates today, orders submitted by NOM Market Makers over this interface are treated as quotes. These orders would therefore count toward meeting quoting obligations for purposes of Rule 701, Opening, and Rule 804(e), regarding intra-day quoting.

#### D. New Ouch to Trade Options

The Exchange proposes to introduce a new interface similar to OTTO offered on affiliated markets which would be available to all NOM Participants (Market Makers and non-Market Makers). In order to bring conformance to the protocols across its affiliated markets, the Exchange proposes to name the new interface “Ouch to Trade Options” or “OTTO” similar to the other markets.<sup>12</sup> This new protocol would allow Participants and their Sponsored Customers to connect, send, and receive messages related to orders to and from the Exchange. Features would include the following: (1) options symbol directory messages (e.g., underlying); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) order messages; and (6) risk protection triggers and cancel notifications.<sup>13</sup> Orders submitted by NOM Market Makers through the new OTTO will not count toward their quoting obligations.

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<sup>12</sup> To allow for the conformance suggested herein, the Exchange is proposing to rename the current protocol “Quote Using Orders” or “QUO.”

<sup>13</sup> Unlike the current OTTO, orders submitted through the proposed new OTTO protocol would not be treated as quotes for purposes of Market Maker quoting obligations.

## Implementation

The Exchange proposes to rename the current OTTO to QUO and introduce the new OTTO protocol in Q4. The Exchange would issue an Options Trader Alert announcing the date on which these protocols would be available.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>14</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>15</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by adding greater transparency to the order and quote protocols available on NOM.

The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest as it codifies the current FIX and SQF protocols used to connect to the Exchange's System. With respect to these protocols in particular, the Exchange believes that including a description of the various order entry protocols into the Rulebook will benefit Participants by increasing transparency around the operation of the Exchange. Furthermore, the proposed descriptions of all protocols in one rule will reflect information available on these protocols, and will be harmonized with language to be included in the rules of its affiliated exchanges to the extent that the protocols operate in the same manner.

With respect to the renamed and amended QUO protocol the Exchange believes that restricting it to NOM Market Makers and further expanding the description of the protocol is consistent with the Act because the Exchange is also proposing to add a new protocol on NOM which would be available to all Participants. NOM is restricting QUO to Market Makers because it is already predominately utilized by Market Makers today. The Exchange is offering

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<sup>14</sup> 15 U.S.C. 78f(b).

<sup>15</sup> 15 U.S.C. 78f(b)(5).

non-Market Makers the new OTTO protocol, which some Participants, who are also members of ISE, GEMX and MRX, utilize today. The Exchange also notes QUO users will be subject to certain quote protections specified in Chapter VI, Section 18(c) which are specific to NOM Market Makers and would otherwise not apply to non-Market Makers. The amended definition will provide greater transparency concerning this protocol which is in use today.

Adopting a new protocol and naming it OTTO will bring greater conformance to the protocols across Nasdaq affiliated markets. The Exchange believes that the new proprietary protocol will offers Participants a range of important features including the ability to submit orders other than through FIX, while continuing to perform functions necessary to manage trading on the Exchange. The proposed new OTTO offers all NOM Participants the ability to send orders, similar to QUO. The new OTTO is intended to continue to permit non-Market Makers to have a protocol similar to the QUO (formerly OTTO) protocol offered on NOM today. The functionality offered on new OTTO mirrors the protocols offered on ISE, GEMX and MRX. The Exchange desires to conform its protocols across Nasdaq affiliated markets. The Exchange believes adopting and codifying this protocol will increase transparency to the Participants. The Exchange also notes that today this protocol is offered on ISE, GEMX and MRX.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. As explained above, the Exchange is codifying the quote and order entry protocols for FIX, SQF, renamed QUO and the new OTTO. Participants utilize the FIX, SQF and current OTTO protocols to connect to the Exchange's System. The Exchange will offer a new OTTO protocol and rename current OTTO to QUO. The Exchange does not believe that codifying these existing and new protocols in the Rulebook will have any competitive impact.



The Exchange does not believe limiting QUO to only Market Makers presents an undue burden on competition because, today, this protocol is predominately utilized by Market Makers. The Exchange is offering non-Market Makers the new OTTO protocol which some Participants, who are also members of ISE, GEMX and MRX, utilize today. The Exchange also notes QUO users will be subject to certain quote protections specified in Chapter VI, Section 18(c) which are specific to NOM Market Makers and would otherwise not apply to non-Market Makers.

Locating all the protocol descriptions within a single rule and adding context around each protocol will increase transparency around the operation of the Exchange without having any impact on inter-market or intra-market competition. All market participants have the ability to subscribe to the protocols for order entry. The quoting protocols are limited to the market participants who are permitted by rule to quote on NOM, but the function is uniformly available to these eligible participants. Further, adopting OTTO will provide market participants with additional choices in selecting an order protocol other than FIX. Market Makers will be able to utilize either SQF or QUO to comply with quoting obligations. Every market participant will have more than one protocol available to utilize.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time

as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>16</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>17</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2018-069 on the subject line.

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>17</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2018-069. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-NASDAQ-2018-069 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).